

NCA
VOC FOR IOP/FN
BACKGROUNDER NO. 1-0395
DAVID LENT/ROME (11:12A)

MARCH 18, 1976

ITALY: THE LIRA'S PLUNGE

ANNCR:

THE ITALIAN LIRA PLUNGED IN VALUE AT A DRAMATIC PACE OVER RECENT WEEKS UNTIL HARSH AUSTERITY MEASURES WERE IMPOSED THURSDAY MORNING BY THE ITALIAN GOVERNMENT V-O-A ROME CORRESPONDENT DAVID LENT EXAMINES THE REASONS FOR THE LIRA'S WEAKNESS.

VOICE:

YEARS OF WEAK GOVERNMENTS ARE ULTIMATELY TO BLAME FOR THE LIRA'S SKID, DURING WHICH IT LOST NEARLY THIRTY PERCENT OF ITS VALUE SINCE LATE JANUARY. IN A BLEAK DAY OF TRADING WEDNESDAY, THE LIRA SET A NEW RECORD OF DECLINE FOR A EUROPEAN CURRENCY IN RECENT TIMES. IT LOST FIVE POINT SIX PERCENT OF ITS VALUE IN ABOUT FIVE HOURS.

THE ECONOMIC REASONS FOR THE LIRA'S DECLINE ARE UNIVERSALLY RECOGNIZED. THEY ARE WAGE-PUSH INFLATION AND LOW PRODUCTIVITY. STATISTICS OVER THE PAST TWO YEARS OF WEAK GOVERNMENTS AND ADMINISTRATIVE PARALYSIS ILLUSTRATE THE PROBLEM. WAGE RATES HAVE OUTSTRIPPED INFLATION RATES, WHILE PRODUCTIVITY HAS RECEDED. PRODUCTIVITY FELL NINE POINT FIVE PERCENT LAST YEAR ALONE. AND ITALIAN INDUSTRY, WHICH DEPENDS UPON LARGE SCALE IMPORTS OF RAW MATERIALS AND ENERGY, HAS BEEN UNABLE TO REVERSE TRADE DEFICITS.

THE INTERACTION BETWEEN WEAK GOVERNMENTS AND WORSENING ECONOMIC CONDITIONS RESEMBLES THE CLASSIC CASE OF THE VICIOUS CIRCLE. THE GOVERNMENT, NOW REDUCED TO A MINORITY CHRISTIAN

DEMOCRATIC CABINET DEPENDENT FOR SURVIVAL UPON SOCIALIST ABSTENTION IN PARLIAMENTARY VOTES, HAS BEEN UNABLE OR UNWILLING TO IMPOSE STRINGENT WAGE AND PRICE CONTROLS. BUT UNDER PRESENT POLITICAL CIRCUMSTANCES, THERE APPEARS TO BE NO POSSIBILITY OF IMPOSING SUCH HARSH MEASURES.

TO COMPLETE THE VICIOUS CIRCLE, WITH EVERY WORSENING OF ECONOMIC CONDITIONS, THERE IS NOT MORE BUT LESS POLITICAL WILL TO TAKE THE STEPS NECESSARY TO PUT THINGS TO RIGHT. PREMIER ALDO MORO CONFERRED WITH LEADERS OF ALL POLITICAL PARTIES, EXCEPT THE NEO-FACISTS, BEFORE IMPOSING EARLY THURSDAY MORNING AUSTERITY MEASURES DESIGNED TO HALT THE TUMBLE OF THE LIRA ON FOREIGN EXCHANGE MARKETS.

THE MEASURES APPEARED TO HAVE GIVEN THE LIRA AT LEAST A SHORT RESPITE, BUT THE CHRISTIAN DEMOCRATS ARE UNLIKELY TO WANT TO BEAR FOR LONG THE FULL RESPONSIBILITY FOR THE UNPOPULAR MEASURES. AND THE EVEN MORE HARSH MEASURES MANY ECONOMISTS NOW BELIEVE ABSOLUTELY NECESSARY ARE SIMPLY OUT OF THE QUESTION POLITICALLY. THE IRONY IS THAT THE HARD FACTS OF ECONOMIC LIFE APPEAR TO BE PUSHING ITALY'S RELUCTANT POLITICIANS INTO THE EARLY PARLIAMENTARY ELECTIONS MOST OF THEM HAVE ARDENTLY SOUGHT TO AVOID.

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JS/RTD